

IDAHO'S EXPANSIVE GROWTH MAY SLOW TO SUSTAINABLE RATE

There is no question that 2006 was a record year for Idaho. By nearly every measure, Idaho grew faster than the nation and nearly every other state, and there is nothing to say that will not continue to be the case — albeit at a somewhat more reasonable rate.

The Congressional Budget Office sees essentially the same outlook nationally — continued but more moderate, sustainable growth.

December's unemployment rate remained unchanged at 3.3 percent, locking in a record low annual average rate of 3.3 percent — a full half point below the previous record set in 2005. Until this run of 20 straight months of unemployment rates below 4 percent, Idaho had posted rates below 4 percent only twice — 3.9 percent in December 1965 and 3.9 percent again in May 1966.

Idaho's rate has been below the national unemployment rate since October 2001, and that will remain the case for many months to come.

About 23,000 more people were working throughout Idaho last year than in 2005, and since the recovery from the 2001-2002 national recession began, there are 77,000 more workers on the job across the state. Idaho employment has been growing at two to three times the national rate for the past several years.

In 2006, Idaho created jobs faster than every state but Nevada, Arizona and Utah, and those jobs were in nearly every sector of the economy. Nonfarm payrolls were up 6 percent after a 4 percent increase in 2005.

One in 10 of those jobs is linked to exports, which has been climbing steadily — from \$2.3 billion four years ago to nearly \$3.3 billion last year and possibly a record \$3.9 billion this year.

It is no surprise that wood products and food manufacturing saw jobs decline over the past several years. The economics for all the reasons expressed over the years appear to be stacked against them.

Federal government payrolls dropped over 2 percent in the last year. And state government, other than education, was down more than a percentage point.

But those are the only sectors to shrink. There were notable areas of growth.

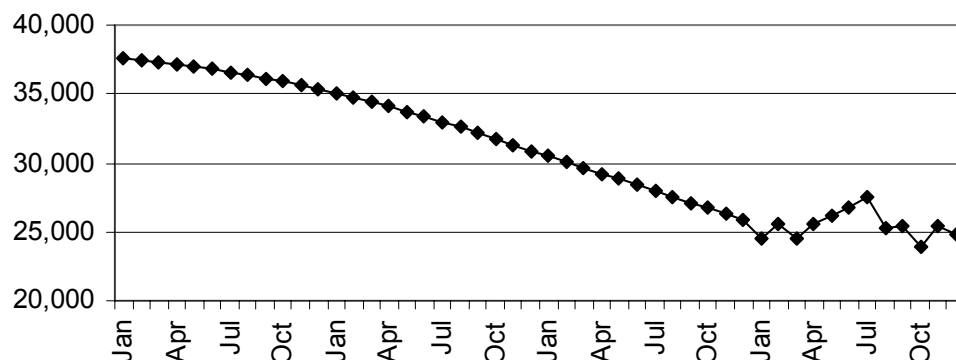
Manufacturing — even with the loss of jobs at the mills and in food processing plants — posted an overall gain in jobs of 6.3 percent in the last two years. That may seem modest compared to other sectors, but it comes when those generally higher-paying jobs fell nearly a half percentage point nationally.

International unrest of recent years has pushed metal prices higher and produced significant gains in mining the past two years — about 25 percent — although employment in that sector is less than half what it was a quarter century ago.

There were significant increases in construction at 17 percent, recreation at 11 percent, financial services including real estate at nearly 7 percent and professional and administrative services at 6 percent.

In the last year — because of construction — four of every 10 new jobs were in the typically

**Idaho's Total Monthly Unemployment
2003-2006**



better-paying goods-producing sector. In 2005, it was less than three in 10.

The rapidly expanding business sector has been putting pressure on Idaho's labor force for more than a year, and that has begun to push wages higher.

Earnings from Idaho jobs in Fiscal 2006 were up 10.4 percent over 2005 compared to a 7.6 percent increase nationally. Some of that was due to the expanded labor force, but wages are rising as well.

There are businesses in nearly every Idaho community that have help wanted signs posted, especially convenience stores, fast food outlets and smaller retailers. The competition up and down the labor market has intensified. Workers who once occupied those lower-paying jobs have moved up to bigger paychecks, better benefits and more favorable working conditions. To get qualified replacements, these businesses are being forced to pay more or find other incentives to lure workers. The same thing is going on farther up the chain as competition increases for qualified employees in a labor market with an unemployment rate well below the 4 percent economists have traditionally called full employment.

Wages rose in late 2004 when some companies resumed paying year-end bonuses. That was about a 9 percent increase over the average wage the final three months of 2003. But the trend continued into 2005. The average monthly wage at the start of 2005 was about 5 percent above the clustered averages of the previous four years. And then the average continued rising through the summer, up 9 percent ignoring the decline typical for that time of year before drifting back toward the year earlier level as the year ended.

But the trend is there, and seems to have continued through 2006 and will far into 2007. That was indicated by the 4.5 percent increase in the average weekly benefit paid to those who were unemployed last year.

All the activity to this point shows how strong the economy has been so there is some perspective about where it is going.

If anything, the confluence of an ever-tightening labor market and rising wages in response is one reason Idaho is probably nearing the end of an extremely robust growth spurt.

The economy is slowing from its breakneck pace to a more sustainable growth rate – one that will likely be regulated up or down by the future avail-

ability of qualified, skilled workers. Investing in Idaho's work force – like businesses already do every year by earmarking 3 percent of their unemployment insurance taxes for the Workforce Development Training Fund – is essential to meeting expanding business demand.

The signs of moderating growth are increasing.

Initial unemployment claims ran ahead of 2005 levels in October and November. For the first time since the recovery began, the number of people collecting unemployment benefits exceeded the year-earlier number in late November and early December.

The number of new hires business made in December was also below December 2005. It was the first month in over a year that occurred. Since 2003 the new hire count has only been below the year-earlier number four times. The next several months will determine if there is a slowing trend in that indicator.

Still, the outlook is strong. Job growth should run over 3 percent through June and just under 3 percent from July through June 2008. The Congressional Budget Office forecasts 1.3 percent growth nationally.

Idaho's average annual wage should rise again in Fiscal 2008 by over 3 percent, more than half a point higher than the anticipated inflation rate for the coming 18 months.

Unemployment will rise but very slowly — a tenth of a percentage point this year to 3.4 percent and another two-tenths in 2008. That will still be over a full percentage point below the national forecast for unemployment. And even at 3.6 percent, Idaho's labor pool will remain tight – the one factor that could crimp further economic expansion.

In the next 18 months, initial unemployment claims, which dropped markedly from 2005 to 2006, will begin edging back toward the 2005 levels. The Unemployment Insurance Trust Fund will remain in solid shape – assuming it will only have to cope with a relatively brief and moderate downturn of nine months or less.

With thousands of new businesses opening in Idaho each of the past several years and all the workers each hires, the overall resilience of the trust fund has not increased. When Idaho was entering the downturn in 2001, the fund balance equaled 2.5 percent of total wages. Today that has dropped to about 1.7 percent, and it will likely fall to 1.5 percent next year. That means the money available to pay benefits is less as a percentage of the potential benefit claims during a severe recession than it was six years ago.

That alone makes it imperative for economic development and work force training specialists at the state and local levels to keep the expansion going.

Idaho Commerce & Labor is currently working on some 20 projects that combined would generate over 2,000 jobs and a billion dollars in capital investment. Because of the confidentiality the companies involved demand, specifics cannot be provided. But in general, these projects include food processing, transportation, high technology, health care and energy.

The national concerns about a crumbling housing market and what that portends for the future should not be dismissed, but the slowing of housing construction in Idaho is not in the same category.

Idaho's housing market may have cooled off, but it is still strong and likely to remain that way. Construction is being driven by population, and by every forecast, Idaho will remain one of the fastest growing states in the nation – doubling, and possibly tripling the national growth rate in some years.

People need houses, builders need workers and eventually, the ever-growing population needs new retail outlets and services – not to mention the factories and offices that open because of the skilled workers a growing population provides.

Over the next 18 months the department projects construction employment will rise although now it's just over 10 percent while the much smaller real estate sector will grow between 2 percent and 3 percent. Financial services will expand at a rate of over 5 percent.

Overall, the economy should keep expanding but not at the dramatic rate of 2006. How close the expansion comes to the experience of 2006 will rest with the availability of skilled labor.

The number of unemployed workers in Idaho dropped steadily from 2003 through 2005 because the economy was generating jobs even faster than the growth in the number of new workers looking for them. But since unemployment has slipped below 3.5 percent of the labor force, the number of unemployed has flattened out, indicating that employers have tapped just about everyone in the available labor pool except the chronically unemployed.

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